EXECUTIVE SUMMARY:

FISCAL IMPACT ANALYSIS

Anne Arundel County, Maryland

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Prepared By:

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EXECUTIVE SUMMARY: FISCAL IMPACT ANALYSIS

Executive Summary of Phases I and II of the Fiscal Impact Analysis conducted for Anne Arundel County, Maryland

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BACKGROUND

TischlerBise is under contract with Anne Arundel County, Maryland, to conduct a two-phase Fiscal Impact Analysis, portions of which are anticipated to be incorporated into the County's update to its General Development Plan. **Phase I** is a Fiscal Impact Analysis Study (FIAS) of four future growth scenarios. **Phase II** of the project is an evaluation of capital needs and revenue strategies to address the fiscal impact of (1) combining current demands from the County's existing population and employment base with those from growth and (2) addressing the backlog of capital infrastructure needs. The results of these evaluations are included herein as well as in supporting documents.

In general, a fiscal impact evaluation analyzes revenue generation and operating and capital costs to a jurisdiction associated with the provision of public services and facilities under a set of assumptions. The Phase I Anne Arundel Fiscal Analysis included the development of growth scenarios and determination of current service levels and capacities and associated revenues and costs. The development scenarios evaluated in the analysis are represented by numerical projections of population, housing units, employment, and nonresidential building area through the year 2025. *The fiscal impact shows direct revenues and costs from new development only and does not include revenues or costs generated from existing development.* This analysis was done through on-site interviews and follow-up discussions with Anne Arundel staff and a review of applicable budgets and other relevant documents. The results of the level of service/capacity analysis were used to develop a fiscal impact model for the County to determine the fiscal impact of each County Growth Scenario. The fiscal analysis essentially looks at revenues and expenditures separately. It does not project expenditures based on revenues available—unlike the annual budget process where a budget is balanced with the resources available.

The Phase II analysis takes the results from Phase I of the fiscal impact of growth in Anne Arundel County under trends development assumptions and (1) adds the revenues and costs from the existing base and (2) then adds the costs to correct the estimated backlog of infrastructure projects. Phase II also includes a discussion of revenue strategies to address the resulting capital needs and concludes with a framework for evaluating revenue options.

The Phase II analysis essentially takes the same approach as Phase I but emphasizes capital needs. In particular, Phase II analyzes ongoing capital costs to serve existing development and

the costs to correct the County's estimated infrastructure backlog. Embedded in the infrastructure backlog estimate is a cost estimate to prevent further deterioration.

The approach of the Fiscal Impact Analysis is to project future needs based on *current levels of service*. No judgment is made as to whether the levels of service are adequate, inadequate, or better than adequate. Nor are any assumptions made regarding future changes in levels of service or types of services offered due to existing deficiencies, different policies or requirements, demographic shifts, technological changes, etc. Furthermore, it is important to acknowledge that fiscal issues are one aspect of evaluating development and growth trends. Environmental, land use, housing, jobs/housing balance, transportation, and other issues should also be taken into consideration when determining what is best for the County.

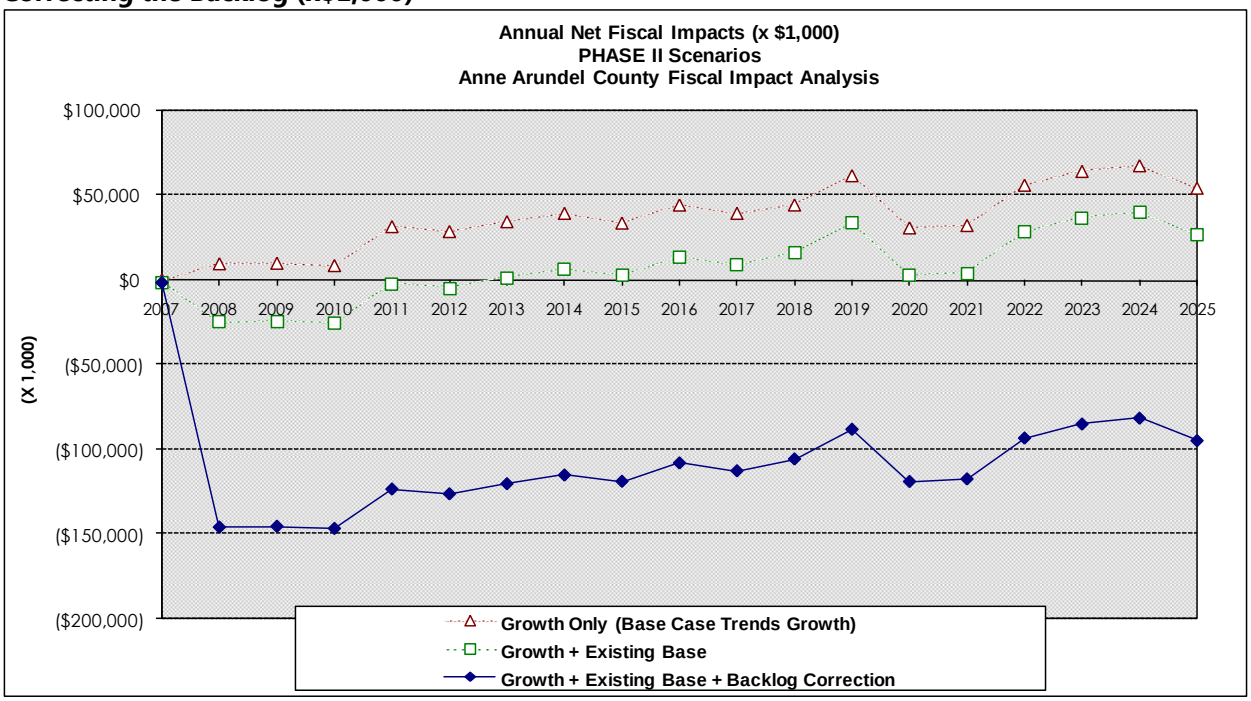
Documentation for the Fiscal Impact Analysis is provided in four reports: (1) *Executive Summary of Phases I and II of the Fiscal Impact Analysis* (this document); (2) *Fiscal Impact Report: Report on Phases I and II Fiscal Impact Analysis*; (3) *Appendix A: Revenue and Expenditure Detail of the Phase I Fiscal Impact Analysis;* and (4) *Appendix B: Level of Service / Cost & Revenue Assumptions.*

FINDINGS

The four County Growth Scenarios evaluated in Phase I produce net surpluses to the County over all years of the 18-year projection period. That is, the revenue projected from growth is sufficient to cover expenditures projected to serve that growth. The annual surpluses are due mainly to the County's revenue structure, including ongoing annual sources of revenue from property taxes and local income taxes as well as one-time recordation and transfer taxes, compared to the level of expenditure for operations and capital infrastructure needed to serve growth. Given the amount of growth projected relative to existing population and employment base in the County—representing only a 15 percent increase over 18 years—the results tend to reflect the effect of economies of scale.

The County and TischlerBise developed two additional scenarios for analysis in Phase II focusing on infrastructure needs. Figure 1 provides the overall results of the Fiscal Analysis depicting annual net fiscal results for (1) growth (Base Case Trends scenario) (2) growth plus the existing base; and (3) growth, existing base, plus the estimated costs to correct the backlog in infrastructure. Annual results are shown where each year reflects total revenues generated minus total expenditures incurred in the same year. Backlog costs are significant totaling over $2 billion. ***The overall finding is that the net surpluses generated by growth in the Phase I analysis are insufficient to cover the estimated costs to correct the existing backlog of infrastructure needs.***

Figure 1. Annual Net Fiscal Results – County Base Case Growth Scenario Plus Existing Base Plus Correcting the Backlog (x$1,000)



As shown on Figure 1, revenues projected from growth (under the Phase I assumptions) are sufficient to cover operating and capital costs generated by growth. Annual results from new growth plus the existing base generate net deficits for the first several years of the projection period and net surpluses generally toward the middle and end. The net surpluses from growth overall are sufficient to cover the estimated costs to serve the existing base producing essentially fiscally neutral results. As noted above, given the amount of growth projected relative to the existing population and employment base of the County—representing only a 15 percent increase over 18 years –the results tend to reflect the effect of economies of scale.

The third scenario includes growth, the existing base, plus the estimated costs to correct the backlog in infrastructure including Schools, Parks, Roads, Community College, and County Facilities. The Backlog correction is assumed to be spread over the 18-year time period, thus annual deficits are generated over the entire time frame. The backlog costs not covered by projected revenues are significant totaling over $2 billion for the 18-year period. The projected cumulative net surplus generated from growth of almost $700 million represents only about 30 percent of the backlog costs.

SUMMARY OF PHASE I FISCAL IMPACT ANALYSIS

PHASE I COUNTY GROWTH SCENARIOS

The County in consultation with the TischlerBise team developed four growth scenarios for the Phase I fiscal analysis. The scenarios represent a number of "what if" situations given the County's recent development trends, potential impacts of BRAC, and other factors. Four scenarios are evaluated using six Fiscal Analysis Zones (FAZ) for all services except Schools, which use the current seven School Impact Fee Zones. (See Appendix A or B for zone maps.) The scenarios are as follows:

- *Scenario 1: Base Case Residential and Nonresidential*. This scenario assumes current trends continue in both residential and nonresidential development, as identified in the Baltimore Metropolitan Council's (BMC) Round 7 Forecast.

- *Scenario 2: Base Case Residential and High Employment Growth at Fort Meade.* This scenario assumes Base Case Residential development (the same as Scenario 1) with more employment growth than recent trends. Specifically, it assumes 15,000 more jobs (above the Base Case) by 2025 in the Fort Meade FAZ.

- *Scenario 3: High Employment Growth with High Residential Growth.* This scenario assumes higher growth in both residential and nonresidential development than current trends. For nonresidential development, the same assumptions as Scenario 2 hold for this scenario. In addition to the 15,000 additional jobs from Scenario 2, it is assumed in this scenario that housing development in the County will keep pace with the projected increase in nonresidential development, thus maintaining the County's current jobs to housing ratio. This results in an additional 9,000 housing units (above the Base Case) locating in the County by 2025, which are then allocated based on available land and zoning.

- *Scenario 4: Accelerated Growth Scenario.* This scenario represents an accelerated pace of growth where thirty years of projected development is condensed into the 18-year projection period analyzed in the FIAS. Projections were developed assuming that the Round 7 forecasts for 2035 occur by 2025. This equates to an additional 10,303 housing units and 34,265 jobs over the Base Case. Growth is redistributed in five-year intervals starting in year 2010 through 2025, keeping the same traffic analysis zone distribution and then aggregating to the study's FAZs.

A summary of growth projections for each scenario is provided below in Figure 2.

Figure 2. Summary of County Growth Scenarios: Net Increases 2008-2025

	SCENARIOS			
	1. Base Case Res & Empl	*2. Base Case Res & High Empl*	*3. High Res & High Empl*	*4. Accelerated Res & Empl.*
Population	68,995	68,995	89,082	94,898
Housing Units				
Net Increase in Housing Units	*27,265*	*27,265*	*36,265*	*37,568*
Employment				
Net Increase in Jobs	*92,571*	*107,571*	*107,571*	*126,836*
School Enrollment*				
Net Increase in Enrollment	*10,011*	*10,011*	*12,929*	*13,790*

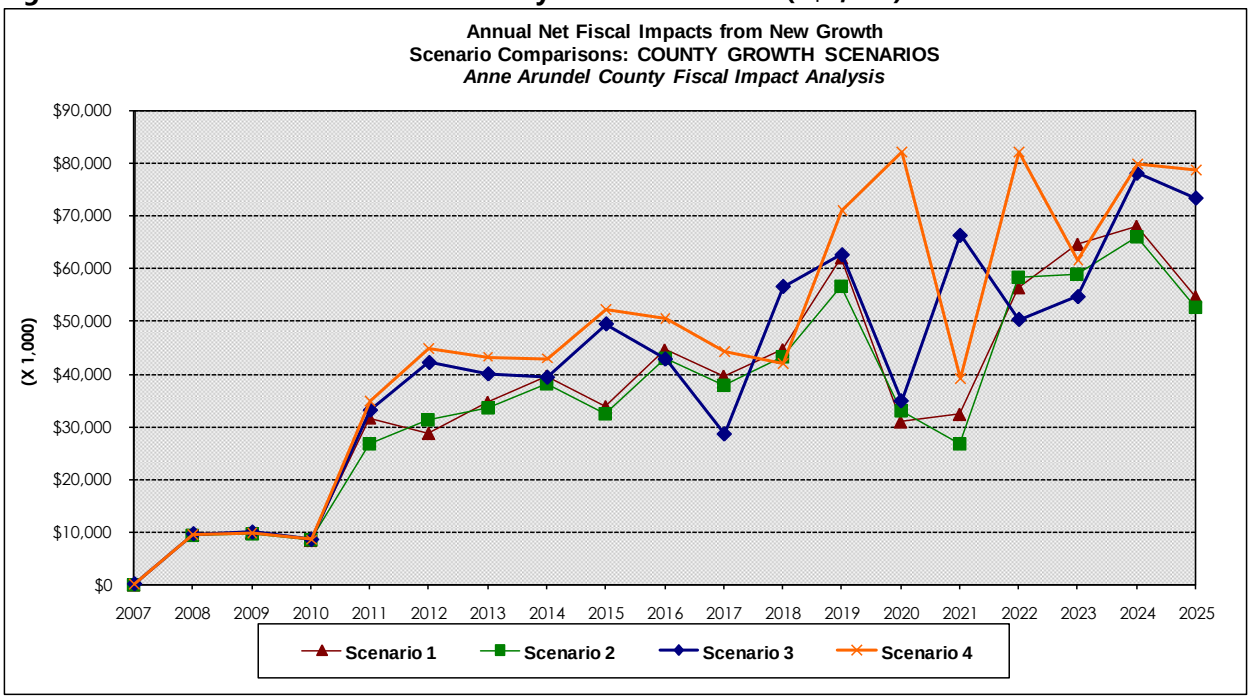
** Based on Student Generation Rate per dwelling unit.*
Sources: Anne Arundel County; TischlerBise

PHASE I FISCAL IMPACT RESULTS

All County Growth Scenarios evaluated under the assumptions of Phase I produce net surpluses to the County over all years of the 18-year projection period. The annual surpluses are due mainly to the County's revenue structure, including ongoing annual sources of revenue from property taxes and local income taxes as well as one-time recordation and transfer taxes, compared to the level of expenditure for operations and capital infrastructure needed to serve growth. Given the amount of growth projected relative to existing population and employment base in the County—representing only a 15 percent increase over 18 years—the results tend to reflect the effect of economies of scale.

The ***annual*** (year to year) net results to the County for each of the four scenarios over the study time horizon are shown in Figure 3. Each year reflects total revenues generated by growth minus total expenditures to serve growth incurred in the same year. Both capital and operating costs are included for all General Fund expenditures as well as full expenditures for the Component Units of Schools (Board of Education), Community College, and Library. By showing the results annually, the magnitude, rate of change, and timeline of deficits and revenues can be observed over time. The "bumpy" nature of the annual results during particular years represents the opening of capital facilities and/or major operating costs being incurred. Data points above the $0 line represent annual surpluses; points below the $0 line represent annual deficits. Figures are shown in $1,000s.

Figure 3. Annual Net Fiscal Results – County Growth Scenarios (x$1,000)



Findings on Operating and Capital Results

Of relevance to the Phase II analysis, Phase I analyzed capital and operating results separately. Net surpluses are much smaller for capital needs than for operating. Cumulative revenues and expenditures for operating and capital are shown separately below in Figure 4. Capital revenues are those that are restricted for capital purposes (i.e., impact fees, State funding) for specific types of infrastructure (e.g., schools, parks, etc.) and capital expenditures shown are for all types of infrastructure projected. As shown, the projected revenues for capital needs are sufficient to cover the projected level of infrastructure needs.

It should be noted that Storm Drainage capital costs are **not** included as part of the calculations herein due to ongoing analysis by the County. However, to provide an order of magnitude estimate, County staff provided a representative cost to serve development for growth-related improvements, based on analyses to date. The potential costs over the 18-year projection period for storm drainage improvements from new development range from approximately $300 million for Scenario 1 to $420 million for Scenario 4 over the 18-year projection period. This represents 40 to 50 percent of the net surpluses generated under Phase I assumptions, depending on the scenario.

Figure 4. Cumulative Net Fiscal Results – Operating and Capital Detail (x$1,000), 2008-2025
GROWTH SCENARIOS
Anne Arundel County, Maryland, Fiscal Impact Analysis

Category	SCENARIO			
	Scenario 1. Base Case	Scenario 2. Base Case Res / High Empl.	Scenario 3. High Res & Empl.	Scenario 4. Accel. Growth
Operating Revenues	$1,959,933	$1,972,048	$2,313,443	$2,540,654
Operating Expenditures	$1,305,735	$1,325,266	$1,573,525	$1,690,383
NET OPERATING IMPACT	***$654,198***	***$646,782***	***$739,918***	***$850,271***
Capital Revenues	$395,117	$397,517	$500,839	$571,535
Capital Expenditures	$356,704	$377,286	$462,863	$545,420
NET CAPITAL IMPACT	***$38,413***	***$20,232***	***$37,977***	***$26,115***
NET FISCAL IMPACT	**$692,612**	**$667,013**	**$777,894**	**$876,386**

It should be noted as well here that the Fiscal Impact Analysis is based on a school capacity threshold of 120 percent. This is based on the assumption that the State will not provide funding to the County for capital improvements until that level is reached. To project the need for new schools, enrollment is projected by school level (elementary, middle, and high) for each scenario and then compared to capacities on an annual basis. If the utilization percentage (enrollment divided by capacity) is over the 120 percent threshold, the model "builds" a new or expanded school and the capital cost is triggered along with accompanying operating costs.

Altering this assumption to a capacity threshold of 100 percent yields different results. With this changed assumption, the overall net fiscal results for all County revenues and expenditures are still net surpluses, but are significantly reduced. The projected cumulative net surplus to the County of close to $700 million assuming a 120 percent school capacity threshold is reduced to $129 million under the 100 percent assumption. This is an average annual net surplus of $7 million instead of an average annual surplus of $38 million.

Based on the assumptions of Phase I, cumulative (18-year total) net fiscal surpluses are generated in all scenarios with Scenario 4 generating the highest amount of all scenarios. The cumulative net surpluses range from a high of approximately $876 million for Scenario 4 to a low of $667 million in Scenario 2. Scenario 2 produces worse results than the other scenarios due to the assumption of additional jobs at Ft. Meade, which are assumed to be non-taxable—thus generating costs to serve the growth without commensurate revenues. However, in all scenarios, total revenues generated from new development over the projection period are sufficient to cover the resulting costs for operating and capital needs.

The results from Phase I indicate that the County's revenue structure, with substantial annual revenue sources including property and income taxes and one-time revenue from recordation

and transfer taxes, is sufficient to cover the costs to serve growth projected in each scenario. Revenue from property taxes, local income tax, and recordation and transfer taxes combined represent approximately 90 percent of projected General Fund revenues (and approximately 70 percent of total revenues when State funding is included).

Because these sources are all derived based on property values for new development, the values assumed in this analysis are a main determinant of the results. The declines in the real estate market that have occurred since the Phase I assumptions were finalized have the potential to alter the Phase I results. **Regardless, the net surpluses generated in the Phase I analysis are insufficient to cover the estimated costs to correct the existing backlog of infrastructure needs addressed in Phase II.**

SUMMARY OF PHASE II FISCAL EVALUATION

PHASE II SCENARIOS

The County and TischlerBise developed two additional scenarios for analysis in Phase II focusing on infrastructure needs.

- *Baseline: Total Countywide Fiscal Impacts:* This scenario assumes current growth trends in both residential and nonresidential development (Scenario 1 from Phase I) coupled with the existing development base. This scenario makes adjustments for capital expenditures and assumes turnover in the residential market thus impacting recordation/transfer tax revenues.

- *Correcting the Infrastructure Backlog:* This scenario adds to the above scenario by layering estimated costs to correct the County's backlog of infrastructure needs for the following categories: County Facilities; Park Renovation; Roads; Bridges; Culverts and Storm Drains; Schools; and Community College. Costs were provided by the County assuming a ten-year time period.

A summary of estimated costs for each scenario is provided below in Figure 5, including capital costs projected for the Growth scenario (Base Case), which was Scenario 1 in the Phase I analysis.

Figure 5. Estimated Capital Costs Assumed in Phase II

	SCENARIO							
	Growth (Base Case)			Existing Base		Correct the Backlog		
Category	*Cumul. $ (18 Yrs)*	*Avg Annual $*	*%*	*Annual $*	*%*	*Total Estimated*	*Annual $***	*%*
County Facilities*	$47,571,246	$2,642,847	13%	$3,800,000	3%	$70,909,260	$3,939,403	3%
Recreation & Parks	$36,000,000	$2,000,000	10%	$900,000	1%	$15,110,000	$839,444	1%
Roads	$166,125,554	$9,229,197	47%	$17,000,000	14%	$447,370,000	$24,853,889	20%
Bridges	na	na		$1,509,000	1%	$15,090,000	$838,333	1%
Culverts and Storm Drains	na	na		$2,416,000	2%	$45,000,000	$2,500,000	2%
Schools	$59,007,407	$3,278,189	17%	$89,140,143	73%	$1,491,403,000	$82,855,722	68%
Community College	$48,000,000	$2,666,667	13%	$8,000,000	7%	$109,800,000	$6,100,000	5%
TOTAL	***$356,704,207***	***$19,816,900***	***100%***	***$122,765,143***	***100%***	***$2,194,682,260***	***$121,926,792***	***100%***

** County Facilities includes Libraries, Public Safety, and General County.*
*** Assumed over a 18-year period*

Shown above are the following estimated capital costs:

- **Growth (Base Case):** Cumulative (18 year) and average annual capital costs to serve projected growth in the Base Case (trends) Scenario from Phase I. As shown, $357

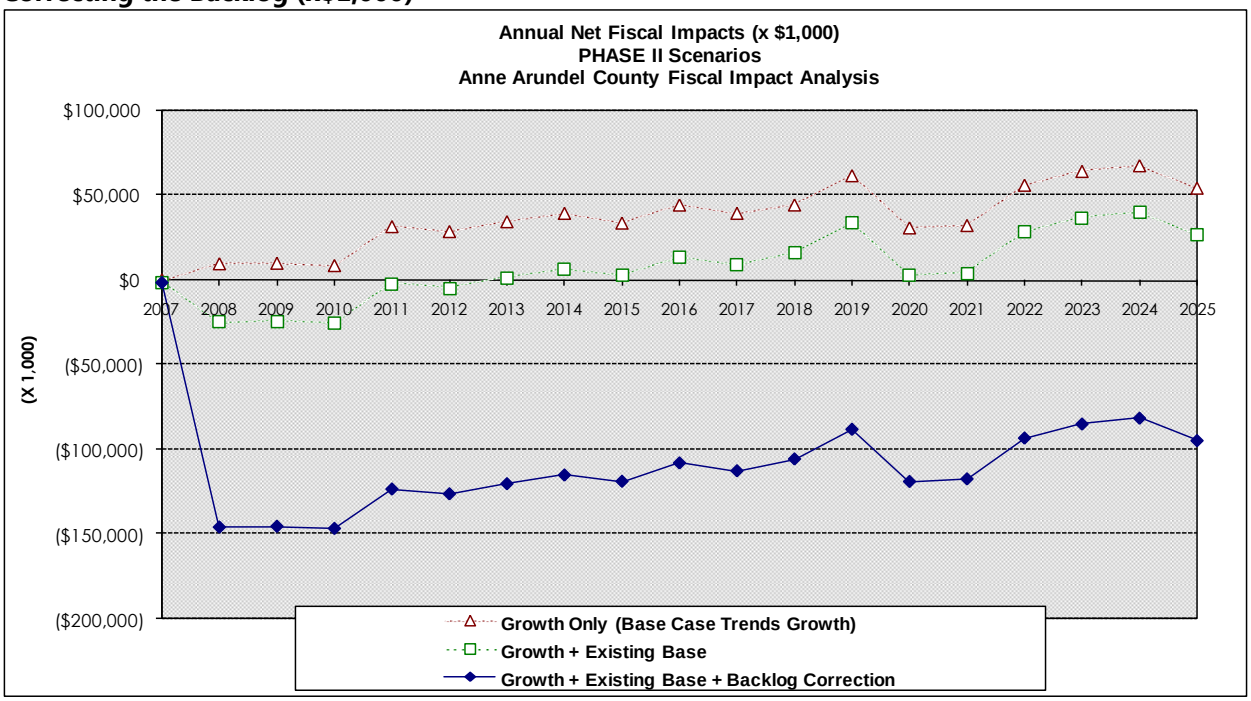
million in capital costs are projected to be needed to serve growth over the next 18 years, or an average annual cost of almost $20 million.

- **Existing Base:** Annual costs to serve the Existing Development Base. These costs are assumed in each year as a representation of average annual costs necessary to serve existing development. These costs reflect rehabilitation and renovation of existing facilities and do not include expanded or additional facilities. Annual costs are approximately $122 million.
- **Correct the Backlog:** Total estimated costs to correct the backlog in capital improvement needs. These costs represent deferred improvements as well as the estimated total cost to prevent further deterioration. Total estimated costs by category were provided by the County and have been assumed over the 18-year time period. Total estimated costs are $2 billion with average annual costs of approximately $122 million.

PHASE II FISCAL RESULTS

Figure 6 provides results for Phase II depicting fiscal results from (1) growth (2) growth plus the existing base; and (3) growth, existing base, plus the estimated costs to correct the backlog in infrastructure including Schools, Parks, Roads, Community College, and County Facilities. Annual results are shown where each year reflects total revenues generated minus total expenditures incurred in the same year. Backlog costs are significant totaling over $2 billion. ***The overall finding is that the net surpluses generated by growth in the Phase I analysis are insufficient to cover the estimated costs to correct the existing backlog of infrastructure needs.***

Figure 6. Annual Net Fiscal Results – County Base Case Growth Scenario Plus Existing Base Plus Correcting the Backlog (x$1,000)



As shown and discussed previously, revenues projected from growth (under the Phase I assumptions) are sufficient to cover operating and capital costs generated by growth. Annual results from new growth plus the existing base generate net deficits for the first several years of the projection period and net surpluses generally toward the middle and end. This is due to the aggregating nature of property and income taxes as well as increased impact fee rates that take effect in 2011. The net surpluses from growth overall are sufficient to cover the estimated costs to serve the existing base producing essentially fiscally neutral results. Given the amount of growth projected relative to the existing population and employment base of the County—representing only a 15 percent increase over 18 years –the results tend to reflect the effect of economies of scale.

The third scenario as described above includes growth, the existing base, plus the estimated costs to correct the backlog in infrastructure including Schools, Parks, Roads, Community College, and County Facilities. The Backlog correction is assumed to be spread over the 18-year time period, thus annual deficits are generated over the entire time frame. The backlog costs not covered by projected revenues are significant totaling over $2 billion for the 18-year period. The projected cumulative net surplus generated from growth of almost $700 million represents only about 30 percent of the backlog costs.

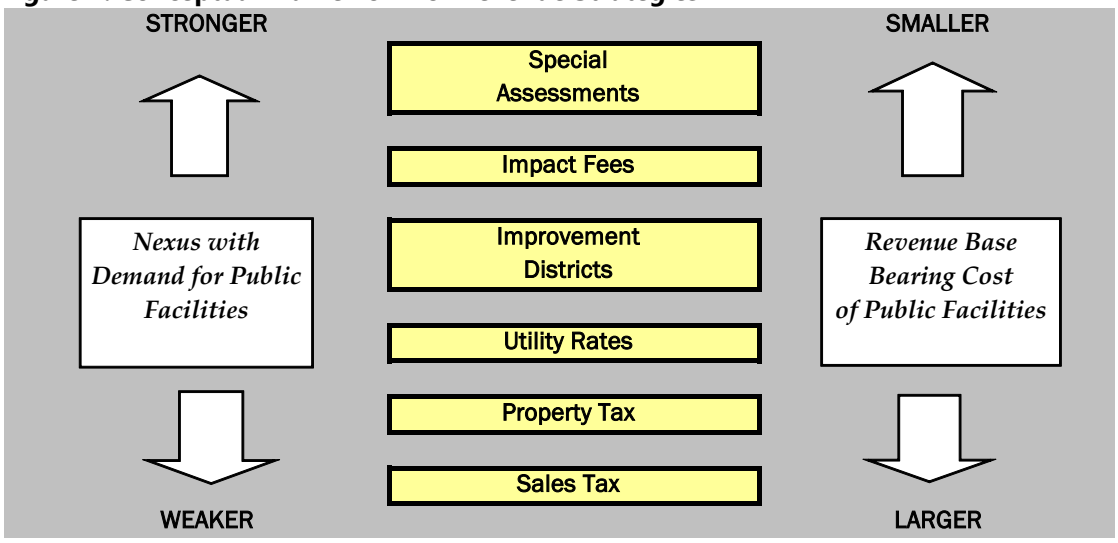
SUMMARY OF POTENTIAL REVENUE STRATEGIES

The analysis also identified revenue strategies potentially available to address the infrastructure needs and revenue gaps. In addition, a framework is presented for analyzing financing approaches according to relevant criteria.

Infrastructure funding alternatives force decision-makers to wrestle with a dynamic tension between two competing desires. As shown on the left side of Figure 7, various funding options have a strong to weak connection between the source of funds and the demand for public facilities. For instance, area-specific assessments are based on known capital costs in a specific location and are paid by those directly benefiting from the new infrastructure. In contrast, property tax revenue may be used by a locality to fund infrastructure with very little, if any, connection between those paying the tax and the need for capital improvements.

It is unfortunate that the funding options with the closest nexus to the demand for public facilities also have the smallest demand base to bear the cost of the public facilities (see the right side of the diagram). Using utilities as an example, only new utility customers pay capacity fees, which are similar to impact fees. In contrast, all existing customers, plus the new customers that are added each year, pay sewer user charges. Therefore, the base of utility user charges continues to increase over time, but the increase in new development is relatively constant from year to year.

Figure 7. Conceptual Framework for Revenue Strategies



Source: TischlerBise: P. Tischler, D. Guthrie, and N. Mishkovsky, "Introduction to Infrastructure Financing," ICMA IQ Service Report

Revenues currently available for capital purposes in Anne Arundel County are from impact fees and the State. Where available, these funds augment and leverage other general revenue funds to pay for capital improvements in the County. Impact fees[1] are assessed on new development only, therefore fee revenue is generated only within the Growth scenario. State funding is also assumed in the Growth scenario when the fiscal model "builds" or "acquires" a particular facility and where State funding is anticipated.

To address the estimated costs to correct the backlog of infrastructure costs, the analysis and reports also include an evaluation of various revenue strategies/financing mechanisms. The following local revenue sources are discussed and evaluated in the full reports as they pertain to infrastructure needs.

- Income Taxes
- Transfer and/or Recordation Taxes
- Property Taxes
- Special District Property Tax
- Local Sales and Service Taxes
- Hotel/Motel Tax
- Bonds
- Impact Fees
- Excise Taxes
- Charges for Service and Other Fees
- Utilities (for Stormwater and Transportation)

Potential revenue strategies are considered according to a set of evaluation criteria. The evaluation criteria include:

- **Revenue Potential:** This evaluation criterion addresses the relative magnitude of funding from each financing mechanism.
- **Proportionality**: This evaluation criterion relates to striking a balance between the tax or fee burden being considered relative to the demand generated. For example, communities sometimes choose to require developer contributions or exactions for growth-related facilities because the public perception is that existing residents are unfairly paying the costs of new growth. In another example, in order to a make a school impact fee "roughly proportionate and reasonably related to service demands," the fee should vary by type of housing unit as each housing unit generates a different number of school age children.

[1] Impact fees are based on adopted rates as of November 5, 2008, and revenue is projected from the development projections assumed in the growth scenario.

- **Technical Ease**: Each of the potential revenue strategies requires some technical expertise and administrative effort to implement. They may require, for example, that additional accounting and reporting requirements are necessary. Furthermore, a funding mechanism may require that a technical study be prepared to justify the fee or charge.
- **Public Acceptability**: This evaluation criterion often varies by jurisdiction and the type of facility to be funded. It reflects how the majority of *existing residents* are expected to accept each financing or planning mechanism.

A general evaluation was conducted of the potential revenue strategies using the four main criteria discussed above. Results are shown below in Figure 8.

Figure 8. Evaluation of Potential Revenue Strategies

	Revenue Potential	***Technical Ease***	***Proportionality***	***Public Acceptance***
Income Taxes	High	Positive	Negative	Negative
Transfer and/or Recordation Taxes	High/Moderate	Positive	Negative	Negative
Property Taxes	Moderate	Positive	Negative	Negative
Special District Property Tax	High/Moderate	Neutral/Negative	Positive/Neutral	Negative
Local Sales and Service Taxes	Moderate	Neutral	Negative	Negative
Hotel/Motel Tax	High/Moderate	Positive	Negative	Positive
Bonds	High	Neutral	Negative	Negative
Impact Fees	High/Moderate	Negative	Positive	Positive
Excise Taxes	High	Negative	Positive/Neutral	Positive
Charges for Service and Other Fees	High	Positive	Positive	Positive
Utilities (for Stormwater and Transportation)	High	Negative	Positive	Negative/ Neutral

DISCUSSION OF THE RESULTS & CONCLUSIONS

The overall finding from Phases I and II of the Fiscal Impact Analysis is that the net surpluses generated by growth in the Phase I analysis are insufficient to cover the estimated costs to correct the existing backlog of infrastructure needs.

PHASE I CONCLUSIONS

- The Growth Scenarios modeled in Phase I produce net surpluses to the County over all years of the 18-year projection period. The net surpluses are due mainly to the County's revenue structure, including ongoing annual sources of revenue from property taxes and local income taxes, compared to the level of expenditure for operations and capital infrastructure needed to serve growth. Given the amount of growth projected relative to existing population and employment base in the County—representing only a 15 percent increase over 18 years—the results tend to reflect the effect of economies of scale. On average, the net surpluses generated represent about 2.5 percent of the County's current General Fund budget.

- Phase I results also indicate that higher or faster growth of both residential and nonresidential development as represented in Scenarios 3 and 4 generate better fiscal results than trends development.

- Revenue from property taxes, local income tax, and recordation and transfer taxes combined represent approximately 90 percent of projected General Fund revenues. Because these sources are all derived based on property values for new development, *the values assumed in this analysis are a main determinant of the results.*

- State funding is assumed for several operating and capital costs. *To the extent these non-County funds remain flat or decrease, the County's financial obligation to maintain levels of service will increase and the surpluses projected in this analysis from growth would decrease or be eliminated*. Alternatively, levels of service will decrease.

- When looking at fiscal results for operating and capital separately, surpluses are generated on the operating side with net deficits generated for capital in some categories. Earmarked revenues for capital expenditures (e.g., impact fees and State funding in some cases) are insufficient for some categories to cover growth-related infrastructure costs. Recent increases to impact fee rates have mitigated some of the

shortfalls. Surpluses on the operating side adequately cover the remaining capital shortfalls.

- The capital expenditures assumed in this analysis are based on maintaining current levels of service for all government services, as opposed to including only those costs approved in the County Capital Improvements Program, master plans, or other facility plans. This approach is representative of the costs of growth because it does not include costs to remedy existing deficiencies (which would result in a higher level of service for future residents), nor is it fiscally constrained.

- School construction is based on a school capacity threshold of 120 percent. Altering this assumption to a capacity threshold of 100 percent yields different fiscal results on both the capital and operating sides. A capacity threshold of 100 percent capacity reduces the cumulative 18-year net surpluses from close to $700 million (in Scenario 1) to $129 million under the 100 percent assumption. This is an average annual net surplus of $7 million instead of an average annual surplus of $38 million.

PHASE II CONCLUSIONS

- The net surpluses generated by growth are insufficient to cover the capital needs from existing development and the backlog of infrastructure improvements on a Pay Go basis.

- Growth capital needs for Roads reflect the largest share of the projected expenditures at almost 50 percent of the total followed by Schools at 17 percent. The situation is essentially flipped when adding in existing development and the costs to correct the backlog, where Schools account for 65 percent of the estimated costs and Roads approximately 20 percent.

- The County is constrained in its ability to issue additional debt above the amounts issued on an annual basis due to existing guidelines and the property tax cap. Additional sources of revenue to back the debt as well as changes to current guidelines would be necessary to debt finance additional infrastructure needs.

- Potential additional revenue sources with the highest revenue potential, such as an increase in the income tax rate, unfortunately are likely to have the lowest level of public acceptance. An increase of .25 percent to the rate is estimated to yield an additional $36 million annually. This would provide a source of PayGo funding and revenue to support additional debt. Based on level annual principal and interest

payments, $36 million in additional annual revenue could support approximately $400 million in additional debt.

- Impact fees should be updated for those categories where fee revenues are not covering growth-related improvement costs (e.g., public safety). In addition, other categories not currently implemented (parks, libraries, detention, County facilities) should be explored. Revenue generated through fees would free up other General Fund revenue that could then be used to pay for a portion of the infrastructure backlog.

- Excise taxes are frequently used to pay for growth-related capital improvements. Several jurisdictions in Maryland use excise taxes and one County has both impact fees and excise taxes. Excise taxes are frequently more attractive than impact fees due to their flexibility and less stringent requirements. For Anne Arundel, use of an excise tax would likely require a change in the impact fee program (depending on the categories implemented) and would require State enabling authority.

- While Stormwater costs are not included in the fiscal analysis, a Stormwater Utility may be an attractive option for the County due to the significant stormwater costs both to serve growth as well as to correct existing deficiencies.

- This analysis was limited to the costs to serve all development and to correct the backlog in infrastructure needs for the categories discussed above. It did not address other needs that have been identified by staff or through studies such as those that reflect changes to levels of service (either adopted or otherwise); stream restoration projects to meet water quality standards; park and recreation needs identified in the Land Preservation, Parks and Recreation Plan; transit needs; changes to delivery of services—both operating and capital (e.g., current Fire needs study); or needs due to changes in demographics or social conditions (e.g., additional senior services and facilities due to an aging population; additional jail space for female inmates due to recent trends). These costs would be in addition to the costs outlined in this report.